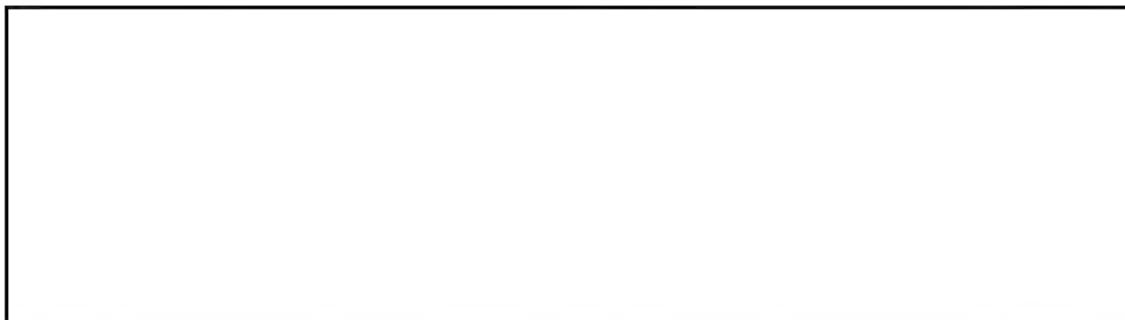


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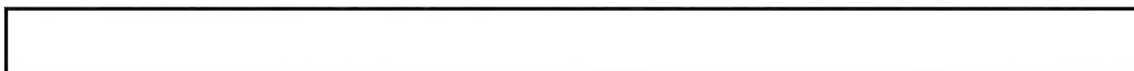
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Western Europe Reacts to US Commodities Proposal

West European states have voiced initial approval of Secretary Kissinger's speech earlier this week that expressed US willingness to support steps for another meeting of oil producers and consumers. Most European officials want more time to study the US proposals before giving a formal response.

They are likely to welcome the US readiness to discuss with the developing states international commodity agreements which the Europeans have conceded is necessary in order to get the oil producers to discuss energy issues. There also is general agreement that existing international forums should be used to resolve raw materials issues, but the Europeans will be sensitive to the reactions of the developing states before expressing outright support for this aspect of the US proposal. The Europeans may also be less forthright in rejecting the developing states' demands for a new world economic order.

The West Europeans remain interested in resuming energy talks between producers and consumers, but since the collapse of last month's talks in Paris they have shifted their priority to developing a common policy on raw materials:

--The Europeans and Japanese are generally gratified that bitter recrimination was avoided among the groups that met in Paris. They feel an overly hasty resumption of energy talks--and a possible second failure--would strain relations between producers and consumers.

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- They are apparently satisfied that the International Energy Agency provides a favorable framework for energy discussions and want to strengthen this channel before any future talks with oil producers.
- The relatively favorable market conditions that currently exist for oil importers have reduced pressure for immediate talks with oil suppliers.
- Preparations will soon begin in earnest for an extensive series of international meetings on issues relating to economic development and raw materials. The EC foreign ministers meet in Dublin later this month to consider raw materials issues, and the Organization for Economic Cooperation and Development holds a ministerial meeting in Paris at which raw materials policy will be a key topic.

Most of the West Europeans realize that part of the answer to warding off future confrontations with the developing states at the UN and elsewhere lies in giving a sympathetic hearing to their demands. The Europeans also hope, however, that progress in discussing raw materials will tend to undercut the argument of the developing countries that oil negotiations must be linked directly to satisfying their demands for a "better deal" on raw materials.

The Europeans are trying to impress on the poorer states that not all raw materials suppliers are developing countries and that relatively few developing states are substantial exporters of raw materials.

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Trade Protection Builds in Textiles

Protectionist pressure is building in the international textile trade following the recent imposition of unilateral restraints on textile imports by Canada and Australia and the establishment of import licensing and monitoring arrangements by the EC and the UK.

Australia imposed tariff quotas in March on more than a dozen important industrial goods, including textiles, and this month Canada placed restraints on the import of low-cost textiles from the Far East and Eastern Europe. Exporters fear that the textile monitoring system recently established by the UK is also a prelude to import restraints on textile importers.

Last week the EC announced that it will begin a statistical monitoring of some 200 "sensitive" cotton and synthetic products on July 1. This action is intended, in part, to serve as a warning to all exporters that restraints will be imposed unless they are more forthcoming on voluntary curbs. The EC also authorized Italy to restrict the import of some cotton goods from South Korea, Pakistan and Taiwan and is considering authorizing West Germany to place similar restrictions on Brazilian exports of textiles.

Last year textile importers and exporters pledged to refrain from unilateral trade restrictions and established a Textile Surveillance Board under the General Agreement on Tariffs and Trade to monitor trade activity.

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Several states have protested the moves toward more protectionist trade policies and are requesting board action, in particular, to censure the Australians. Resolution of these issues will severely test not only the competence and effectiveness of the board but also the credibility of the whole principle of any international surveillance system over imports.

Pressures in the textile area have also prevented many countries from conforming to the international multi-fiber agreement which regulates the international textile trade by preventing sharp rises in imports disruptive of domestic industries. The EC is generally regarded as the chief offender, although several major importers still have not conformed fully to the arrangement.

Under the agreement, the EC is negotiating new bilateral textile pacts with 17 countries. EC officials contend that their new surveillance system is intended primarily to provide the statistical base required to lay the groundwork for these negotiations. The worsening international economic climate has made negotiations extremely difficult and, at present, EC negotiations have been completed with only one state--India. The EC Commission hopes that, once two or three agreements are signed, the remaining states will quickly fall into line.

Originally, the bilateral agreements were to cover a four-year period from 1974 to 1977. EC tardiness has resulted in bitter exporter complaints that the EC is holding up talks in order to postpone any movement toward trade liberalization.

Although negotiations have been underway for some time now with seven Asian states,

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major obstacles have completely stalled talks with several other states. The Commission did not receive its mandate to enter into negotiations with three Latin American states--Mexico, Brazil and Columbia--until this month.

Hungary and Romania, signatories to the international multi-fiber agreement, recently indicated their willingness to negotiate bilateral agreements with the EC. These would be the first formal agreements concluded between the community and the member states of the Council for Economic Mutual Assistance under the EC's common commercial policy.

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Portuguese Cabinet Announces More Nationalization Measures

The Portuguese Council of Ministers on Tuesday announced further nationalization measures, despite indications that Labor Minister Costa Martins as well as other leading members of the Armed Forces Movement believe that economic measures already instituted were enacted hastily and will be hard to carry out effectively.

With the new measures, government control of private business includes six tobacco companies and most cement and cellulose companies. Foreign-owned companies are not directly affected by the announcement on Tuesday.

The government also approved a minimum wage of \$160 per month, a 21 percent increase, plus an income freeze on all incomes over \$480 per month and a maximum wage of \$1,956 monthly.

These wage measures will be hard to enforce, and, to the extent they are, they are likely to accelerate the economic decline. The maximum wage provision is likely to encourage managerial and professional personnel to leave the country in increasing numbers.

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Ottawa Promises To Consult on Planned Troop Cuts

Ottawa has assured US embassy officials that Canada intends to consult with its allies if the defense review now underway recommends changes that would affect Canada's NATO commitments.

An official in the External Affairs Department dismissed recent press speculation that the Trudeau government was in favor of pulling out Canada's 2,800-man mechanized brigade from West Germany and modernizing its air force fighter contingent there. He said that all options were still very much open. Those include retention of Canada's existing contingent in West Germany, including both the air force and army units, or limiting the contingent to either air or ground forces only. He added that while cost-effectiveness and military efficiency were factors in the review, the political implications were also very important.

The official noted that if consultations were required, they probably would not take place until a recommendation had been forwarded to the cabinet for approval. In any event, Canada's allies would not be presented with a fait accompli. The cabinet would be asked to endorse the proposal in principle, subject to approval by the NATO allies following consultations.

The NATO allies apparently can still influence Canada's decision. The US embassy believes that such intervention now would strengthen the hand of those in the government who have misgivings about the implications of any reduction of manpower in the Canadian NATO force.

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EC Aircraft Manufacturing Policy

The EC Commission recently completed a study which concludes that it has become essential for the Nine to speedily adopt a common policy to ensure that Europe retains a capacity to produce aircraft for the civil aviation market. Unless the Community were to ban sales of US aircraft in Europe--which is not even being considered--EC measures will not be sufficient to revive Europe's sagging aircraft industry in the foreseeable future.

The Commission notes that between 1970 and 1974 aircraft sales of EC members dropped from 9.5 percent of the world market to 5.9 percent. Although the value of Europe's civil aviation fleets is also increasing, the share produced by the EC members has declined--mainly because of increased sales by the US which controls four-fifths of the market. A series of US-built aircraft captured the world civil aviation market several years ago, and there is little room today for European manufacturers. The most widely used civil aircraft are all US-built and are likely to dominate the field for the next decade, leaving little room for European manufacturers. The Europeans have also suffered from competition among themselves.

The Commission sees the best hope for the Community lying in the production of aircraft for the short and medium-haul market, the area

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